STATE OF WISCONSIN
Department of Employee Trust Funds
David A. Stella
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax (608) 267-4549
http://etf.wi.gov

CORRESPONDENCE MEMORANDUM

DATE: November 1, 2010

TO: Wisconsin Deferred Compensation Board

FROM: Shelly Schueller, Director
Wisconsin Deferred Compensation Program

SUBJECT: FDIC Fixed/Floating Interest Rate Decision

Staff recommends that the Board approve Advised Asset Group's FDIC interest rate recommendation for 2011 and keep the allocation the same as 2010: 75% of the interest rate to the fixed portion and 25% to the floating portion.

M&I Bank of Southern Wisconsin has been under contract to offer the Federal Deposit Insurance Corporation (FDIC) bank option for Wisconsin Deferred Compensation (WDC) Program participants since January 1, 2001. WDC participants holding assets in the FDIC account receive a blended rate of interest based on the fixed/floating interest rate allocation selected by the WDC Board.

The contract between the Board and M&I Bank permits the Board to change the percentage allocated to the fixed and floating interest rate for the following year, provided the Board gives M&I Bank a 30 day notice.

To determine the interest rate that will be applied to participant accounts in 2011, action is needed by the Board at the November 2010 meeting to set the percentage of the FDIC account assigned to the fixed and floating interest rate calculation. The attached memo from Steve Conkin at Advised Assets Group (a division of Great-West Retirement Services) provides background on the recommended allocation for 2011.

Mr. Conkin from AAG recommends that the Board make no change to the existing allocation. This means the allocation for 2011 would remain the same as in 2010: seventy-five (75%) to the fixed portion and twenty-five percent (25%) to the floating portion. Staff concurs with this recommendation. It is the same allocation that the Board selected for the past three years, and appears prudent given the volatility and continued worldwide economy uncertainty.

Mr. Conkin and Department staff will be available at the meeting to discuss this recommendation.

Attachment

Reviewed and approved by Jean Gilding, Division Administrator, Division of Retirement Services.

Jean Gilding 11/2/10

Signature Date

Board	Mtg Date	Item #
DC	11.16.10	13

AdvisedAssetsGroup
Put Our Power Behind You℠

Memorandum

To: Shelly Schueller, Director,
Wisconsin Deferred Compensation Program

From: Steve Conkin, Senior Portfolio Manager,
Advised Assets Group

Date: October 26, 2010

Re: Allocation for the FDIC Option

The M&I Bank of Southern Wisconsin permits the Wisconsin Deferred Compensation Board (the Board) to set the allocation of the FDIC option used in calculating the interest rate. The allocation is composed of a floating rate portion based on the 3 month LIBOR less .40% reset each quarter and a fixed portion based on the 12 month LIBOR less .40% reset annually.

To best allocate this blended rate requires setting a higher allocation to the floating portion (3 month LIBOR) in a rising interest rate environment and a higher allocation to the fixed portion (12 month LIBOR) in a falling rate environment.

The current interest rate environment is one of historically low yields across all maturities. Over the past three years, the 20-year treasury yield has dropped from 4.95% to 3.56% and the 1-year Treasury yield has dropped to 0.22% from 4.24%. The Federal Open Market Committee lowered their target Federal Funds rate to a range of 0.00% to 0.25% since December 16, 2008. As evidenced by a relatively flat yield curve on maturities of less than 5 years, there currently is not a compelling enticement to invest in longer maturity bonds. Inflation concerns and the potential reaction by the FOMC (and other central banks) would be a viable counter-argument to this conclusion. However, inflation has been muted for the past year with the core inflation coming in at less than 1%. According to recent Treasury Inflation Protected Securities (TIPS) auctions, the 1 year expected inflation rate is 1.35%. At this low level, the FOMC would likely not be pressured to raise rates to arrest inflation in the economy. Further, using options contracts on Federal Funds Futures as indicators of future FOMC actions leads us to conclude that there is almost no probability of a rate hike in the next three months.

Taking into account the above factors, the 12-month LIBOR rate of 0.77%, and the 3-month LIBOR rate of 0.29% as of October 20, AAG recommends a 75% allocation to the fixed portion and a 25% allocation to the floating portion. However, should the Board desire to take advantage of a higher fixed portion; a 100/0 split would also be prudent.

8515 E. Orchard Road, 10T2
Greenwood Village, CO 80111
Phone 800.888.4952 ext. 41066
Fax 303.737.6544